



POWER MATTERS

<http://www.abag.ca.gov/services/power>

ABAG SELECTS ELECTRIC SUPPLIERS

ABAG has completed its evaluation of the power supply proposals received in response to its December RFP and has selected four suppliers to provide power to the proposed ABAG Power Purchasing Pool.

ABAG's Selected Suppliers

The suppliers selected by ABAG include: Seattle City Light with CNG, Inc., Southern Energy Retail Trade Marketing, Inc., Vantus Energy Corporation, and Washington Water Power. Vantus Energy Corporation is an affiliate of Pacific Gas and Electric Company. ABAG is currently negotiating memoranda of understanding with each of the selected suppliers.

ABAG selected the suppliers on the basis of the most competitive prices submitted. Bid were submitted for over 30 ten-megawatt blocks of power at the different capacity factors needed to meet the combined load requirements of 130 local agencies.

From the suppliers, ABAG selected a mix of fixed and indexed pricing in order to diversify the Pool's financial risk. In addition to having the lowest prices, suppliers had to be willing to hold their prices for an extended period while ABAG presents the results of the RFP process to the interested local governments.

ABAG is in the process of developing a simple rate structure for the Pool program and currently projects that the Pool rates based on these supply prices will offer a discount of about four to five percent off the price PG&E projects the new statewide Power Exchange will produce.

Next Steps for ABAG

The next step for ABAG will be to select a schedule coordinator and billing agent for the program. The

schedule coordinator is a state-mandated service to forecast, schedule and balance the amount of power the Pool puts onto and takes off the power grid. The billing agent will offer consolidated billing with ABAG's natural gas program. The cost of both of these services will be covered in ABAG's administrative fee.

Getting Ready To Join

Local governments who participated in the RFP process will be receiving instructions by late March on what they will need to do in order to join the Pool.

The instruction package will include: 1) a Council or Board resolution authorizing participation in the program and in a new joint powers agency to be created to house the program, 2) execution of an agreement creating a new joint powers agency to house the program (POWER), and 3) execution of an aggregation agreement (agreement to purchase power) between the agency and ABAG including both power prices and ABAG's administrative fee. The initial term of the aggregation agreement is one year.

Because the suppliers will hold their prices for a limited amount of time, ABAG will ask local governments to review and execute the documents within 90 days.

The Benefits of Ownership

After the local governments have executed the required legal documents, ABAG will assist local governments in obtaining any new metering technology that might be required to participate in program.

In addition to savings, the program will offer the benefit of being wholly-owned and operated by its members. As members, participating agencies will have a role in all future Pool purchasing and planning decisions.

HOW WILL DEREGULATION AFFECT FRANCHISE FEES?

Cities and counties receive franchise fees from public utilities in compensation for the utility's use of the public right-of-way. Franchise fees for individual local governments have historically been calculated as a percentage (typically one to two) of the "gross receipts" collected by the utility within the boundaries of the jurisdiction. Therefore, any reduction of utility's gross receipts within a jurisdiction will result in a reduction of the local government's annual franchise fee payment.

There are three ways in which the pending deregulation of the electric utility industry will reduce utility gross receipts:

Mandated Rate Reductions: AB 1890 mandated a 10 percent rate reduction for residential and small commercial ratepayers in 1998 and an additional 10 percent reduction for this same group in 2002.

Competitive Transition Charge: In addition, AB 1890 limited the utility's collection of a "Competitive Transition Charge" to the year 2002, which will mean large commercial, industrial, and other non-residential customer classes are likely to see a rate reduction of 30 percent in 2002 and beyond.

Direct Access: AB 1890 also endorsed the implementation of a Direct Access program which will allow customers of all classes to purchase power from a supplier other than the public utility. An existing state law largely limits franchise fee losses attributable to Direct Access.

Franchise fee losses will vary by jurisdiction depending on each jurisdiction's individual mix of residential, commercial, and industrial users. Primarily residential jurisdictions will experience larger losses in 1998-2002 than those with large commercial and industrial bases.

For example, a largely residential jurisdiction will

experience approximately a 10 percent reduction in franchise fees in 1998 and a more serious drop of 20 percent in 2002. A mixed residential and commercial jurisdiction will have lighter losses of about 4 percent in the 1998 but experience a more significant drop of around 27 percent in 2002. A largely commercial jurisdiction will have low reductions in 1998 but close to a 30 percent decrease in 2002.

An existing state law creates a mechanism — a franchise fee surcharge — for the utility to collect franchise fees from customers who participate in the Direct Access program. The surcharge prevents any gross losses of fee revenue attributable to customers contracting with third party suppliers but it does not control for losses due to overall declining power prices.

In addition, because local governments and other subdivisions of the state are exempted from the surcharge, local governments will: 1) retain their own franchise fee if they chose to aggregate and 2) lose franchise fee revenues from any school or special district that aggregates. At this time, it is not possible to estimate franchise fee losses due to Direct Access.

Loss of franchise fee revenue will be offset by financial gains in other areas. First and foremost, local governments may save four to five percent on their own power bills in the first four years of deregulation and an additional 25 to 30 percent more in the fifth year and beyond of deregulation. In addition, lower power rates may improve economic conditions and result in positive gains in sales and payroll taxes.

The League of California Cities has created a task force to look at the broad spectrum of local government revenues, including anticipated franchise fee losses, and to suggest appropriate legislative proposals. The taskforce is expected to report on its recommendations by April 1.

POWER POOL QUESTIONS

FREQUENTLY-ASKED QUESTIONS ABOUT ELECTRIC RESTRUCTURING AND ABAG'S POWER POOL

How will the new restructured electric power industry work?

AB 1890 and the California Public Utilities Commission are restructuring the industry to allow customers to have options for the purchase of the commodity (power) portion of their electric service. The transmission and distribution of power from the generator to the customer will still be a regulated activity, with the local utility continuing to perform its role as the local distribution company. In 1998, there will be two basic options for purchasing power: 1) purchase power with distribution service from Pacific Gas and Electric (PG&E) which will be purchasing power from a new statewide market mechanism called the Power Exchange or 2) purchase power from any number of third party suppliers or aggregators.

A Fact to Remember: Power is only 25 percent of the total PG&E rate. So, if someone offers a 25-percent discount on your current rates, what they're really offering is to give you power for FREE! More likely, they're offering you a 25 percent discount on the power portion only, which would translate to a 5 percent discount on the total rate.

Did AB 1890 give all customers a 10-percent reduction in rates if they stay with PG&E?

No, AB 1890 provided only residential and those small commercial customers using less than 20 kilowatts a year with a 10-percent reduction in rates in 1998. Only the smallest local government accounts will qualify for this 10-percent rate reduction.

A Fact to Remember: If your local government decides to stay with PG&E for bundled service, you will receive the current PG&E rates, which were capped by the CPUC and the Legislature, for all your accounts that use more than 20 kilowatts per year. Although your power price will be determined by the new Power Exchange, any savings created by this new mechanism will be offset by increases in the Competitive Transition Charge (CTC).

Why are savings only 4 to 5 percent?

AB 1890 and the CPUC are allowing the utilities to recover the investment they have made in power generation sources that would not be able to compete with today's lower cost generation sources. For the next four years, PG&E customers will pay a Competitive Transition Charge (CTC) of approximately four cents for every kilowatt hour. This charge will be used to pay back investors who lent PG&E the funds to pay for these noncompetitive generation sources.

A Fact to Remember: In 2002, customers will be done paying for these assets, which total \$30 billion statewide, and PG&E's charges for distribution will drop by 30 to 40 percent. The largest savings from deregulation will occur when the CTC is paid. Another thing to remember, your local government will receive this 30 to 40 percent rate reduction whether you stay with the utility or not.

ELECTRICITY PROGRAM

COMING SOON IN YOUR MAIL . . .

. . . EVERYTHING YOU NEED TO JOIN ABAG'S ELECTRIC PURCHASE PROGRAM

Sometime in the next month you'll be receiving all the information you need to join ABAG's Electric Purchase Program. Look for these special benefits for local governments:

- * Savings of 4 to 5 percent for all your electric accounts
- * A rate structure tailored to maximize savings for the local government load
- * Consolidated billing
- * Assistance with meter installation and purchase
- * A voice in your energy purchasing future
- ...and
- * A public approach to doing energy business

ABAG staff are available to answer all your questions about electric restructuring and the ABAG Power Purchase Pool. If you would like a staff person to attend a Council or Board work session to assist in your presentation, please call Patricia Spangler at (510) 464-7933.

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